

TRANSMITTAL SLIP		DATE 31 Aug 82
TO: DDCI		
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NIO/Econ		
ROOM NO.	BUILDING	EXTENSION

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THE DIRECTOR OF
CENTRAL INTELLIGENCE

DDI #7073-82
31 August 1982

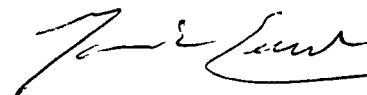
National Intelligence Council

MEMORANDUM FOR: Director of Central Intelligence

FROM: Maurice C. Ernst
NIO/Economics

SUBJECT: Economic Impact of Restrictions
on Exports of Western Energy
Equipment to the USSR

For your information and reactions and
for possible use at your meeting with McFarlane,
is a draft outline of the SOVA paper on the economic
impact of restrictions on exports of Western energy
equipment to the USSR.



Maurice C. Ernst

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**Embargo of Energy Equipment and Technology
to the USSR in Perspective**

I. Prospective Soviet Energy Balance

A. The Changing Nature of Energy Production

- Policy shift from coal to oil and gas.
- Resource constraints and rising costs.

B. Trends in Energy Use

- Changing pattern of energy consumption.
- The record and outlook for conservation (via efficiency gains) and interfuel substitution (no major gains on the horizon).

C. The Role of Energy in Soviet Foreign Trade

- Brief description of the importance of energy to the Soviets as a source of hard currency earnings with which to achieve economic objectives (including defense programs).

II. The Role of Western Equipment

A. What have they been using and for what purpose?

- Description of past trends in acquiring Western energy equipment.
- Increasing importance of high capacity, high quality equipment in the 1980s is leading to greater significance for Western equipment in Soviet energy production (i.e. the opportunity cost of not having Western equipment will be higher than in the past because of the points made in I A. and I B. above).

B. Types of Equipment Needed

- Relates specific equipment to specific problems facing Soviet energy producers (e.g. watercut, high sulfur, etc.).
- Relative capability of Soviet domestic equipment to cope with these problems.

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III. Cost of Disrupting the Balance

This section examines the cost to the Soviets of having to go it alone; (1) almost completely (an embargo of Western energy equipment from the US plus other NATO countries plus Japan) and (2) with only the loss of US equipment (an embargo of US energy equipment only).

A. Impact on energy production

B. Soviet response

- by themselves
- with other Western countries

C. Implications for the economy

- Policy options (i.e. do they take impact out of their domestic hide or their foreign exchange earnings).
- Impact on hard currency earnings and use.
- Impact on economic growth
 - aggregate impact (i.e. GNP)
 - bottlenecks created (i.e. direct impact of energy shortfalls on individual sectors)
 - resource redistribution issues (investment, labor, industrial materials).
- Impact on military programs and defense resources.

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